

**REPORT OF THE AUDIT OF THE
ROCKCASTLE COUNTY
SHERIFF**

**For The Year Ended
December 31, 2003**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE ROCKCASTLE COUNTY SHERIFF

**For The Year Ended
December 31, 2003**

The Auditor of Public Accounts has completed the Rockcastle County Sheriff's audit for the year ended December 31, 2003. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting described in Note 1.

Financial Condition:

Excess fees decreased by \$12,616 from the prior year, resulting in excess fees of \$5,484 as of December 31, 2003. Revenues decreased by \$5,212 from the prior year and expenditures increased by \$7,404.

Report Comments:

- The Sheriff Should Eliminate Deficit In His Official Fee Account
- The Sheriff Should Submit An Annual Settlement Of Excess Fees
- The Sheriff Did Not Publish His Annual Financial Statement
- The Sheriff Should Maintain Accurate Records
- The Sheriff Should Avoid Paying For Interest From His Official Fee Account
- The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT	1
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS	3
NOTES TO FINANCIAL STATEMENT	6
SUPPORTING SCHEDULES:	
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS – REGULATORY BASIS.....	8
COMMENTS AND RECOMMENDATIONS	11
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	17



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Buzz Carloftis, Rockcastle County Judge/Executive
The Honorable Darrell Doan, Rockcastle County Sheriff
Members of the Rockcastle County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Sheriff of Rockcastle County, Kentucky, for the year ended December 31, 2003. This financial statement is the responsibility of the County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Sheriff for the year ended December 31, 2003, in conformity with the regulatory basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated October 12, 2004, on our consideration of the County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.



The Honorable Buzz Carloftis, Rockcastle County Judge/Executive
The Honorable Darrell Doan, Rockcastle County Sheriff
Members of the Rockcastle County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discuss the following report comments:

- The Sheriff Should Eliminate Deficit In His Official Fee Account
- The Sheriff Should Submit An Annual Settlement Of Excess Fees
- The Sheriff Did Not Publish His Annual Financial Statement
- The Sheriff Should Maintain Accurate Records
- The Sheriff Should Avoid Paying For Interest From His Official Fee Account
- The Sheriff's Office Lacks Adequate Segregation Of Duties

This report is intended solely for the information and use of the County Sheriff and Fiscal Court of Rockcastle County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
October 12, 2004

ROCKCASTLE COUNTY
 DARRELL DOAN, COUNTY SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2003

Revenues

State - Kentucky Law Enforcement Foundation Program Fund		\$	20,505
State Fees For Services:			
Finance and Administration Cabinet			6,289
Circuit Court Clerk:			
Sheriff Security Service			22,650
Fiscal Court			7,009
County Clerk - Delinquent Taxes			1,583
Commission On Taxes Collected			88,032
Fees Collected For Services:			
Auto Inspections	\$	4,690	
Accident and Police Reports		464	
Serving Papers		13,455	
Carrying Concealed Deadly Weapon Permits		6,255	24,864
Other:			
Arrest Fees	\$	4,084	
Office Fees		10	
Transporting Prisoners		10,386	
Confiscated Drug Money (Note 4)		1,056	
Drug Forfeitures (Note 4)		846	
State Election		340	
Transporting Juveniles		260	
Miscellaneous		3,937	20,919
Interest Earned			220
Borrowed Money:			
Bank Note			17,500
Total Revenues		\$	209,571

The accompanying notes are an integral part of this financial statement.

ROCKCASTLE COUNTY
 DARRELL DOAN, COUNTY SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2003
 (Continued)

Expenditures

Operating Expenditures:

Personnel Services-

Deputies Salaries	\$	83,827
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Contracted Services-

Advertising		422
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Vehicle Maintenance and Repairs		9,673
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Materials and Supplies:

Uniforms		3,320
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Auto Expense:

Gasoline		16,771
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Other Charges:

Conventions and Travel	\$	190
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Dues		33
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Postage		79
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Radio Equipment		285
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Carrying Concealed Deadly Weapon Permits		2,050
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Refunds		2,519
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Miscellaneous		8,001	13,157
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Bank Expense:

Automatic Withdrawals		218
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Total Expenditures	\$	127,388
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The accompanying notes are an integral part of this financial statement.

ROCKCASTLE COUNTY
 DARRELL DOAN, COUNTY SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2003
 (Continued)

Expenditures (Continued)

Operating Expenditures: (Continued)

Debt Service:

Notes	\$ 17,500	
Interest	627	\$ 18,127
		<hr/>
Total Expenditures		\$ 145,515
Less: Disallowed Expenditures		<hr/> 627
Total Allowable Expenditures		<hr/> \$ 144,888
Net Revenues		\$ 64,683
Less: Statutory Maximum		<hr/> 59,199
Excess Fees		<hr/> \$ 5,484
Payments to Fiscal Court-		
December 31, 2003		<hr/> \$ 4,857
Balance Due Fiscal Court at Completion of Audit		<hr/> <hr/> \$ 627

The accompanying notes are an integral part of this financial statement.

ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2003

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

Kentucky Revised Statute (KRS) 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Sheriff as determined by the audit. KRS 134.310 requires the County Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2003 services
- Reimbursements for 2003 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2003

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2003
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems.

This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.34 percent for the first six months of the year and 7.34 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits:

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, and (c) an official record of the depository institution. These requirements were met, and as of December 31, 2003, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the Sheriff's agent in the Sheriff's name, or provided surety bond which named the Sheriff as beneficiary/obligee on the bond.

Note 4. Drug Forfeiture Account

During 2003, the Sheriff's office received proceeds from the confiscation, surrender, or sale of real and personal property involved in drug related convictions. According to the court orders, these proceeds may be used for operating expenditures of the Sheriff's office. A drug forfeiture account was opened during calendar year 2003 with receipts of \$5,539. There were no disbursements, which resulted in an ending cash balance for this account at December 31, 2003 of \$5,539. Prior to opening this account, the Sheriff deposited \$1,056 of confiscated drug money and \$846 of drug forfeiture money into his official fee account. The monies deposited into the fee account were used to pay for operating expenditures of the sheriff's office, which is in accordance with the court order that ordered the funds to be turned over to the Sheriff.

ROCKCASTLE COUNTY
DARRELL DOAN, COUNTY SHERIFF
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS – REGULATORY BASIS

December 31, 2003

Assets

Cash in Bank	\$ 7,329
Total Assets	<u>\$ 7,329</u>

Liabilities

Paid Obligations:

Outstanding Checks	\$ 7,329
Total Paid Obligations	<u>\$ 7,329</u>

Unpaid Obligations:

Rockcastle County- Excess Fees - 2003	\$ 627
Total Unpaid Obligations	<u>\$ 627</u>
Total Liabilities	<u>\$ 7,956</u>
Total Fund Deficit as of December 31, 2003	<u><u>\$ (627)</u></u>

COMMENTS AND RECOMMENDATIONS

ROCKCASTLE COUNTY
DARRELL DOAN, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2003

STATE LAWS AND REGULATIONS:

1. The Sheriff Should Eliminate Deficit In His Official Fee Account

The Sheriff has a deficit of \$627 in his fee account as of December 31, 2003. This deficit is the result of disallowed interest expenditures made by the Sheriff during calendar year 2003. Excess fees due to the county have increased by this amount due to the disallowed expenditures. We recommend the Sheriff eliminate this deficit by depositing personal funds of \$627, which should then be paid over to the county as additional excess fees.

Sheriff's Response:

I will pay this.

2. The Sheriff Should Submit An Annual Settlement Of Excess Fees

The Sheriff did not submit an annual settlement of excess fees as required by KRS 134.310 (5). According to KRS 134.310, "the sheriff shall file annually with his final settlement: (a) a complete statement of all funds received by his office for official services, showing separately the total income received by his office for services rendered, exclusive of his commissions for collecting taxes, and the total funds received as commissions for collecting state, county, and school taxes; and (b) a complete statement of all expenditures of his office, including his salary, compensation of deputies and assistants, and reasonable expenses." We recommend the Sheriff comply with KRS 134.310 by submitting an annual settlement of excess fees in the future.

Sheriff's Response:

We will do this in the future.

3. The Sheriff Did Not Publish His Annual Financial Statement

The Sheriff did not publish his annual financial statement as required by KRS 424.220(6) & (8). According to KRS 424.220(6) & (8) "the sheriff shall, within sixty (60) days after the close of the sheriff's fiscal year, cause the financial statement to be published in full in a newspaper qualified under KRS 424.120 to publish advertisements for the county." We recommend the Sheriff comply with KRS 424.220(6) & (8) by timely publishing an annual financial statement in the future.

Sheriff's Response:

We will publish in the future.

ROCKCASTLE COUNTY
DARRELL DOAN, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period Ended December 31, 2003
(Continued)

4. The Sheriff Should Maintain Accurate Records

The Sheriff's office did not comply with the Uniform System of Accounts as adopted under KRS 68.210. The Sheriff did not maintain accurate records for the Fee account during calendar year 2003. The Uniform System of Accounts requires accurate recording of receipts by source and expenditures by payee. Also, according to Technical Audit Bulletin #93-002, Section 4, any of the following practices shall be subject to report as an audit comment relating to the noncompliance with the accounting and documentation provisions in KRS 68.210.

- A collection of public funds, which is not recorded daily on a daily checkout sheet as provided in the Uniform System of Accounts as referenced in KRS 68.210.
- The failure to reconcile daily check-out sheets with daily deposit totals.
- Any official bank account statements that have not been reconciled monthly by a person other than the person who has signature authority or makes deposits to the official accounts.

We recommend the Sheriff comply with KRS 68.210 and Technical Audit Bulletin #93-002, Section 4, by recording daily receipts on a daily checkout sheet, reconciling daily checkout sheets with daily bank deposits and reconciling bank account statements monthly by a person other than the one who has signature authority or makes deposits into the official accounts.

Sheriff's Response:

We are in compliance for this year.

5. The Sheriff Should Avoid Paying For Interest From His Official Fee Account

The Sheriff paid \$627 in interest to the bank for loans he obtained to pay for the operating expenses of his office. Technical Audit Bulletin #93-001, Section 3, states, "any of the following practices shall be subject to an audit comment relating to Ky Const. S 173; KRS 61.190 and 132.601(1); and Funk v. Milliken, 317 S.W.2d 499 (KY 1958):

- Penalties for late payments
- Interest incurred on a personal loan by a sheriff who chooses not to participate in the Sheriff's Advancement Programs."

The Sheriff chose not to participate in the Sheriff's Advancement Program. He instead, obtained a bank loan to pay for operating expenditures of his office. Therefore, auditors have disallowed the interest expense on the loan. We recommend the Sheriff comply with Technical Audit Bulletin #93-001, Section 3, in the future.

Sheriff's Response:

We tried to get state advance but it would have taken months.

ROCKCASTLE COUNTY
DARRELL DOAN, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period Ended December 31, 2003
(Continued)

INTERNAL CONTROL - REPORTABLE CONDITIONS AND MATERIAL WEAKNESSES

6. The Sheriff's Office Lacks Adequate Segregation Of Duties

The Rockcastle County Sheriff's office lacks an adequate segregation of duties. We offer the following suggestions to help compensate for a lack of adequate segregation of duties.

- A qualified office employee independent of check writing and posting duties should match checks and invoices.
- The employee who opens the mail should keep a listing of all checks received for that day, detailing the date received, the check amount, who it is from, and what the check is for.
- This employee should mark invoices as being paid and initial the invoices.
- The Sheriff should require two (2) signatures on all checks written.

To have better internal controls, it is a best practice to keep the receipt of cash, the disbursement of cash, and the posting of cash to the ledgers delegated to separate individuals. We recommend the Sheriff take an active role in reviewing the receipts ledger, disbursements ledger, daily cash checkout sheets, deposit tickets, and bank reconciliations to ensure recordkeeping is being processed diligently. The Sheriff should also ensure that reports are completed properly.

Sheriff's Response:

We will do these procedures in the future.

PRIOR YEAR:

- The Former Sheriff Should Have Closed His Fee Account By Collecting All Receivables And Paying All Liabilities Owed
- The Former Sheriff Should Have Required Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits
- The Former Sheriff Should Have Withheld Retirement From Kentucky Law Enforcement Foundation Program Funds Disbursed To The Deputies
- The Former Sheriff's Office Lacked Adequate Segregation Of Duties

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Buzz Carloftis, Rockcastle County Judge/Executive
The Honorable Darrell Doan, Rockcastle County Sheriff
Members of the Rockcastle County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Rockcastle County Sheriff for the year ended December 31, 2003, and have issued our report thereon dated October 12, 2004. This was a special report on the County Sheriff's financial statement prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Rockcastle County Sheriff's financial statement for the year ended December 31, 2003, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Sheriff Should Eliminate Deficit In His Official Fee Account
- The Sheriff Should Submit An Annual Settlement Of Excess Fees
- The Sheriff Did Not Publish His Annual Financial Statement
- The Sheriff Should Maintain Accurate Records
- The Sheriff Should Avoid Paying For Interest From His Official Fee Account



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Rockcastle County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. A reportable condition is described in the accompanying comments and recommendations.

- The Sheriff Lacks Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the above reportable condition to be a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
October 12, 200

